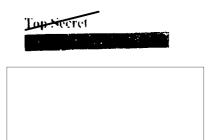


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SPECIAL ANALYSIS

ARGENTINA: Viola Takes Charge

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When retired Army General Roberto Viola replaces President Jorge Videla on Sunday, he will face massive economic problems, conflicting pressures over civilian participation in the political process, and demands for an honorable settlement of the Beagle Channel dispute with Chile. Viola's prescriptions for solving these and other problems are likely to encounter vigorous opposition as Argentina enters its sixth year of military rule.

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The politically moderate Viola will share power with a three-man junta comprising the heads of the military services. Although important government decisions will be made only after consultations with and approval by the junta, Viola is a strong leader who will seek to impose his own personal views on policymaking. He will have to contend with some influential members of the military hierarchy who are opposed to his alleged populist leanings and softness in dealing with Chile, as well as his tacit support of outgoing Economics Minister Martinez de Hoz, whose policies have left a legacy of economic uncertainty.

Economic Situation

The ailing economy, which has registered little growth in the last five years, will be the new government's most urgent concern. Although Martinez de Hoz has restored Argentina's international financial standing and maintained full employment, he has not been able to make Argentine Lusinesses competitive overseas or to lower the inflation rate to an acceptable level.

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A wave of ban ruptcies and financial jitters, moreover, have undermined business confidence and have led to a drain on foreign reserves. To reduce inflation, the peso was allowed to become progressively more overvalued during the past year in the expectation that

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cheaper imports would force Argentine procests and lower prices. Many businesses to compete, however, and they failed, as financial institutions that had lent to ering firms. 3.5(c)	were unable did several	
The overvalued peso made Argentine priced for foreign buyers; exports, in twhile imports jumped. The sizable curredeficit reduced foreign exchange reserves \$11 billion to \$7 billion.	urn, dropped	
After Martinez de Hoz finally permi percent devaluation in early February of Argentines concluded that a more realist would follow, and they rushed to convert lars. The massive outflow since devaluated reduced reserves to a little over \$4 bil	this year, ic devaluation pesos to dol- ation has further	
Viola's economic team now must rest and stimulate growth. It probably will successful than Martinez de Hoz, however government spendingthe chief cause of	not be much more	3.5(c) 3.5(c)
Additional devaluation to stimulate tion and to restrain imports is likely, would be inflationary. A new round of i prompt active opposition from organized	but it also	3.5(c)
Political Liberalization		
The new President's toughest politi in developing a framework for bringing c especially the Peronistsback into the ess. The military's timetable for rever rule remains unclear, but it appears unw an elected civilian government before 19	ivilians political proc- sion to civilian illing to accept	3.5(c)
A number of senior officers fear th to resolve Argentina's economic difficul precipitate a premature turnover of powe believe that the traditional political p incapable of governing and that the entiparty structure has to be revamped—a pr will take several years.	ties could r. They arties are re civilian	·
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	Γ	-Top-Secret	3.5(c)
	The military is particularly wary of who they believe brought the country to truin before being ousted in March 1976. vation of old-style party and trade union has raised suspicions in some military quality provide them a political opening. Political party activities are still recent open criticism of government policiparties has become harder for the authorical Meanwhile, Viola is placing more civilian cabinet and at all levels of government, sion of some Peronists and Radical Party lower-level government jobs will add to the some of his military colleagues.	the brink of Viola's culti- leaders also larters that he suspended, but lies by the ties to ignore. Is in his and his inclumembers in he unease of	3.5(c)
	The Beagle Channel Issue	3.5(c)	:
	There also is concern in some milita circles about the Beagle Channel mediatio Paul II's proposal for solving the disput major split in Argentina's ruling group bure to establish clearly Argentine maritigive rise to future disputes.	n. Pope John e created a ecause its fail-	3.5(0)
2.075.743			3.3(b)(1)
3.3(b)(1)	determined to draw out the talks, hoping both the Vatican and Chile, which accepts proposal. 3.5(C)	entines seem to wear down the Pope's	
	Viola		3.3(b)(1)
3.3(b)(1)	will have to fend off its modification critics, who probably would push for a milif the mediation fails. Outlook	ost influential litary solution 3.5(c)	
,	Viola's recent unofficial meetings woofficials have given him an important boos in Buenos Aires that he has substantially relations and opened the door to renewed sales to Argentina will afford him considererm political capital.	st. The view improved US military	
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The long-term success of Viola's administration, however, will depend largely upon his ability and that of his advisers to bring Argentina out of its economic doldrums. Although they probably will continue to adhere to free market principles, some major changes in policy will be required.

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The new leadership has not yet agreed on specifics, but the more extreme measures that may be necessary will be hard to sell. Argentines are not accustomed to austere living. 3.5(c)

The onus of failure will fall more directly upon Viola than it did upon Videla because he will assume more responsibility for economic decisionmaking. A major improvement in the economy appears essential before any real progress can be made in Viola's cherished program of political liberalization. Until that time, Viola will have to summon all of his political skills to mollify his military opponents, who mistrust and could try to overthrow him, and civilian political leaders, who believe that military rule has nearly exhausted itself.

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